

RESOLUTION NO. 08-25

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF REVENUE BONDS ON BEHALF OF THE PACIFIC GAS AND ELECTRIC COMPANY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$453,550,000 IN EXCHANGE FOR CERTAIN REVENUE BONDS CURRENTLY OUTSTANDING, THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS HEREIN SPECIFIED AND OTHER MATTERS RELATING THERETO

WHEREAS, the California Infrastructure and Economic Development Bank, an entity within the Business, Transportation and Housing Agency of the State of California (the "Issuer"), was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code (commencing with California Government Code Section 63000), as now in effect and as it may be amended or supplemented (the "Act"), for the purpose of, among other things, financing or refinancing economic development facilities for projects located within the State of California (the "State"), including real and personal property, structures, buildings, equipment, and supporting components thereof that are used to provide economic development facilities, and all facilities or infrastructure necessary or desirable in connection therewith;

WHEREAS, pursuant to Section 63045(c) of the California Government Code (the "Government Code"), the Issuer is authorized to issue tax exempt revenue bonds pursuant to Chapter 5 of the Act to provide financing for economic development facilities compatible with the public interest as specified in Section 63046;

WHEREAS, pursuant to Section 63081 of the Government Code, the Issuer is authorized to issue bonds for the purpose of refunding any bonds, notes or other securities of the Issuer then outstanding, including the payment of any interest accrued, or to accrue, on the earliest of any subsequent date of redemption, purchase, or maturity of these bonds;

WHEREAS, pursuant to Section 63025.1(j) of the Government Code, the Issuer is authorized to make loans to any sponsor, in accordance with an agreement between the Issuer and the sponsor to refinance indebtedness incurred by the sponsor in connection with projects undertaken and completed prior to any agreement with the Issuer or expectation that the Issuer would provide financing pursuant to the Act;

WHEREAS, the Issuer issued its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005A (AMT), in the aggregate principal amount of \$74,275,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005B (AMT), in the aggregate principal amount of \$74,275,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005C (AMT), in the aggregate principal amount of \$80,000,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005D (AMT), in the aggregate principal amount of \$80,000,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005E (non-AMT), in the aggregate principal amount of \$50,000,000; its

Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005F (non-AMT), in the aggregate principal amount of \$50,000,000; and its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005G (non-AMT), in the aggregate principal amount of \$45,000,000 (collectively, the "2005 Bonds"), and loaned the proceeds thereof to Pacific Gas and Electric Company (the "Borrower") pursuant to the Loan Agreements relating to the 2005 Bonds, each dated as of May 1, 2005 and by and between the Issuer and the Borrower, to refinance certain air and water pollution control and sewage and solid waste disposal facilities located in Lake and Sonoma Counties (the "Geysers Project"), as well as certain air and water pollution control and sewage and solid waste disposal facilities located at the Diablo Canyon Nuclear Power Plant (the "Diablo Canyon Project" and together with the Geysers Project, the "Projects"), which Sidley Austin Brown & Wood LLP, now Sidley Austin LLP, as bond counsel ("Bond Counsel") previously determined are "exempt facilities" under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and which were originally owned and operated by the Borrower;

WHEREAS, the Issuer has been informed by the Borrower that the Geysers Project was subsequently transferred to Geysers Power Company, LLC, which has agreed to use the Geysers Project solely as pollution control facilities within the meaning of Section 103(b)(4)(F) of the 1954 Code, and the regulations thereunder, as in effect prior to August 15, 1986, and continue to own and operate the Geysers Project in such manner, for so long as tax-exempt bonds issued to finance or refinance the Geysers Project are outstanding;

WHEREAS, the 2005 Bonds initially bore interest at an Auction Rate (as such term is defined in each of the Indentures of Trust, dated as of May 1, 2005 (collectively, the "2005 Indentures"), each by and between the Issuer and Deutsche Bank National Trust Company, as trustee), and each series of the 2005 Bonds is insured by a separate financial guaranty insurance policy (the "2005 Bond Insurance Policies") issued by Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company (the "2005 Bond Insurer");

WHEREAS, in response to market disruptions associated with the 2005 Bond Insurer, the Borrower has purchased and presently is the beneficial owner of all the 2005 Bonds;

WHEREAS, the Borrower has requested the Issuer to issue its refunding revenue bonds in one or more series in an aggregate principal amount not to exceed \$453,550,000 (the "Bonds") to assist the Borrower in the refinancing of the 2005 Bonds;

WHEREAS, when issued, the Bonds will be exchanged for the 2005 Bonds; upon such exchange, each series of the 2005 Bonds will be delivered to the trustee for such series of the 2005 Bonds for cancellation and each loan associated with such series of the 2005 Bonds will be cancelled;

WHEREAS, the Bonds initially will not be insured by the 2005 Bond Insurance Policies or by any other financial guaranty insurance policies;

WHEREAS, Bond Counsel has advised that the transactions contemplated by this Resolution will not result in there being a "new issue" of obligations for federal income tax purposes; rather, Bond Counsel has advised that the Bonds will be treated as the same debt

instruments as the 2005 Bonds for purposes of Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended and Section 103 of the 1954 Code;

WHEREAS, the Borrower is a "participating party" and the Projects are "economic development facilities" and therefore the Borrower is a "sponsor" within the meaning of the Act;

WHEREAS, there is now on file with the Secretary of the Issuer the following:

(a) a proposed form of Indenture of Trust (the "Indenture"), one or more of which are to be entered into by and between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"), providing for the authorization and issuance of Bonds in one or more series, each series to be dated the date of delivery thereof;

(b) a proposed form of Loan Agreement (the "Loan Agreement"), one or more of which are to be entered into by and between the Issuer and the Borrower in connection with the issuance of one or more series of Bonds; and

(c) a proposed form of Bond and Loan Exchange Agreement (the "Exchange Agreement"), one or more of which are to be entered into by and among the Issuer, the Borrower and the Treasurer of the State, in connection with the issuance of one or more series of Bonds by the Issuer to the Borrower;

WHEREAS, final approval of the above agreements and certain other documents relating to the Bonds is now sought;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

Section 1. The form of Indenture on file with the Secretary of the Issuer is hereby approved, and each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Trustee, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, an Indenture in substantially the form of the Indenture on file with the Secretary of the Issuer, with such changes and insertions therein (including, without limitation, changes or insertions appropriate to reflect the form of credit enhancement and/or liquidity support, if any, for such series of the Bonds) as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 2. The form of Loan Agreement on file with the Secretary of the Issuer is hereby approved; and each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Borrower, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, a Loan Agreement in substantially the form of the Loan Agreement on file with the Secretary of the Issuer, with such changes and insertions therein (including, without limitation, changes or insertions appropriate to reflect the form of credit enhancement and/or liquidity support, if any, for such series of the Bonds) as may

be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 3. The form of Exchange Agreement on file with the Secretary of the Issuer is hereby approved, and, subject to the approval thereof by the Treasurer of the State, each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Borrower, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, an Exchange Agreement in substantially the form of the Exchange Agreement on file with the Secretary of the Issuer, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 4. [Reserved.]

Section 5. The Issuer approves the issuance of not to exceed \$453,550,000 aggregate principal amount of the Bonds, in one or more series, in exchange for the 2005 Bonds in accordance with the terms of and to be secured by one or more Indentures. The Bonds may be issued at one time, or from time to time, in one or more series or subseries, as serial bonds or as term bonds, separately or differently identified, and shall be issued on a tax-exempt basis. Payment of the principal of and premium, if any, and the interest on, each series of the Bonds shall be made solely from the revenues to be received by the Issuer pursuant to the related Loan Agreement and the related Indenture, and the Bonds shall not be deemed to constitute a debt or liability of the Issuer or the State, other than a limited obligation of the Issuer payable solely from the revenues pledged therefor. Each of the Chair or Executive Director of the Issuer or the Chair's designee, acting alone, is hereby authorized and directed to execute, in the name and on behalf of the Issuer, by manual or facsimile signature, the Bonds in an aggregate principal amount not to exceed \$453,550,000, in accordance with one or more Indentures and in the form set forth in the Indentures. The dates, maturity dates (which shall not exceed 50 years from the date of issuance of the Bonds), interest rate or rates, methods of determining the interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and terms of tender, number and designation of series, and other terms of each series of the Bonds shall be as provided in the related Indenture, as finally executed. In no event shall the rate of interest on each series of the Bonds exceed 12% per annum or the maximum rate permitted by law whichever is lower.

Section 6. The Treasurer of the State is hereby authorized and requested to enter into agreements to sell or to exchange the Bonds for the 2005 Bonds on one or more dates, within ninety (90) days of receipt of a certified copy of this Resolution, at private sale or exchange, at such price or prices and at such initial interest rate or rates as he may determine or approve.

Section 7. The Bonds, when so executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate and register the Bonds so delivered by executing the appropriate Certificate of Authentication and Registration appearing thereon, and to deliver the Bonds, when duly executed, authenticated and registered, to the Borrower for subsequent redelivery to the Underwriters or directly to the Underwriters for the account of the Borrower, in accordance with written instructions executed

on behalf of the Issuer by the Chair or Executive Director of the Issuer, or the Chair's designee, which instructions said official is hereby authorized and directed, for and in the name of and on behalf of the Issuer, to execute and to deliver to the Trustee. Such instructions shall provide for the delivery of the Bonds to or for the account of The Depository Trust Company, on behalf of the Borrower for subsequent redelivery to the Underwriters or directly to the Underwriters for the account of the Borrower, upon exchange of the 2005 Bonds therefor by the Borrower or payment of the purchase price therefor by the Underwriters, as applicable.

Section 8. Upon exchange of the Bonds for the 2005 Bonds, the trustee for each series of the 2005 Bonds is hereby requested and directed to cancel the 2005 Bonds in accordance with the written instructions executed on behalf of the Issuer by the Chair or Executive Director of the Issuer or the Chair's designee which instructions said official is hereby authorized and directed, for and in the name of and on behalf of the Issuer, to execute and deliver to such trustee, and each of the Chair or Executive Director of the Issuer or the Chair's designee, acting alone, is hereby authorized and directed to execute, in the name and on behalf of the Issuer, such instruments as shall be necessary or appropriate to evidence that the loans associated with the 2005 Bonds have been cancelled.

Section 9. Based upon representations made by the Borrower, the Board of Directors of the Issuer hereby finds and determines pursuant to Section 63046 of the Government Code:

- (a) that the Projects are located in the State;
- (b) that the Borrower is capable of meeting its obligations with respect to the Bonds to be issued for the Projects;
- (c) that the payments to the Issuer under each Loan Agreement and each Indenture are adequate to pay the current expenses of the Issuer in connection with the related series of the Bonds and to make payments on such related series of the Bonds;
- (d) that the issuance of the Bonds is an appropriate financing mechanism for the Projects;
- (e) that the Projects are consistent with any existing local and regional comprehensive plans; and
- (f) that the refinancing of the Projects demonstrates clear evidence of a defined public benefit.

The finding in subsection (b) above is based on the requirements that (i) payment of principal and purchase price of and interest on the Bonds issued at a variable rate of interest will be secured by a credit facility issued by a provider rated at the time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc. (without regard to "+"s or "-"s or numerical designations) and (ii) the Bonds (as enhanced) will be rated at the time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc. (without regard to "+"s or "-"s or numerical designations); provided, however, that if any of the Bonds will be issued at a fixed rate of interest, such Bonds will be rated at the

time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc., based on the credit of the Borrower (without regard to "+"s or "-"s or numerical designations).

Section 10. The Board of Directors of the Issuer hereby finds and determines that the proposed financing complies with the criteria, priorities and guidelines adopted by the Issuer pertaining to the conduit issuance of revenue bonds.

Section 11. Each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized to execute all documents, certificates and instruments necessary or appropriate in connection with the issuance of the Bonds and the exchange of the Bonds for the 2005 Bonds, including (without limitation) to execute and deliver any and all documents and certificates, including supplemental tax certificates, any documents relating to any credit enhancement and/or liquidity support, if any, or ancillary agreements or derivative products relating to the Bonds, and prepare and deliver information regarding the Issuer for inclusion in the disclosure documents relating to the Bonds.

Section 12. All actions heretofore taken by the officials of the Issuer with respect to the approval, issuance and sale of the Bonds are hereby approved, confirmed and ratified, and the officials of the Issuer and their authorized designees are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates and documents that they, their counsel or Bond Counsel may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution.

Section 13. This Resolution shall take effect from and after its adoption.

PASSED, APPROVED, AND ADOPTED at a meeting of the Board of Directors of the California Infrastructure and Economic Development Bank on August 21, 2008, by the following vote:

AYES: Berte, Lujano, Sheehan, Rice, Marin

NOES: None

ABSENT: None

ABSTAIN: None

By Stanton C. Hazelroth
Stanton C. Hazelroth, Executive Director

Attest:

By Roma Cristia-Plant
Roma Cristia-Plant, Secretary